Regulatory Audit of Verizon California and Its Corporate Affiliates R.01-09-001/I.01-09-002

Joint Exhibit of Verizon California Inc., The Office of Ratepayer Advocates, and The Utility Reform Network

Phase I - Financial Analysis

Beginning Reference Number	Audit Recommendation - Issue	Status	Accepted Expense Adjustments (millions) *(6) (Increase) / Decrease in VZ CA Expense						Audit Report Recommended Adjustments (millions)				
•			1996	1997	1998	1999	2000	2001	Cumulative	1996	1997	1998	Cumulative
		Resolved											
		Accepted											
3	Svc Corp Factor Development (Z factor)	Adjustment			\$2.296				\$2.296			\$5.50	\$5.50
		Resolved											
		No											
5	Historic Use of Factors (C&F factors)	Adjustment							\$0.000	\$0.20	\$0.20	\$0.80	\$1.20
		Resolved											
		Accepted	40.000	•••••		00.450			***				***
6	Historic Use of Factors (I factor)	Adjustment	\$3.988	\$9.890	\$10.024	\$8.152			\$32.054	\$4.00	\$10.00	\$10.00	\$24.00
		Resolved											
8	Budget Center Testing	Accepted	\$1.604	(\$2.734)	(\$2.997)	TBD	TBD	TBD	(\$4.40 7)	£1 CO	(fto 70)	(\$2.00)	(04.40)
0	Budget Center Testing	Adjustment	\$1.004	(\$2.734)	(\$2.997)	עפו	טסו	טסו	(\$4.127)	\$1.60	(\$2.70)	(\$3.00)	(\$4.10)
		Resolved No											
11	Manual Allocation (B factor)	Adjustment							\$0.000			(\$0.20)	(\$0.20)
- 11	Inalitial Allocation (Blactor)	Resolved							ψ0.000			(ψ0.20)	(\$0.20)
		Accepted											
13	GTEDS ROR *(7)	Adjustment	\$10.600						\$10.600	\$1.80			\$1.80
10	CTEBOTION (7)	Resolved	ψ10.000						ψ10.000	ψ1.00			ψ1.00
		Accepted											
16	GTEDS ROR	Adjustment		(\$1.310)	(\$0.070)				(\$1.380)		\$3.40	(\$0.07)	\$3.33
_		Resolved		(* /	(**/				(**************************************		*	(*/	*
		No											
17a	GTEDS Pricing	Adjustment							\$0.000			\$2.50	\$2.50
	•	Resolved											
		No											
21	GTEDS Royalty Fees	Adjustment							\$0.000	*(1)	\$0.60	\$0.20	\$0.80
		Resolved											
		Accepted											
25	Labs Beneficiary Analysis	Adjustment		\$2.460					\$2.460		\$5.90		\$5.90
		Resolved											
		No							_		_		
30	Labs Overhead Rates	Adjustment							\$0.000	(\$0.06)	\$0.02	(\$0.09)	(\$0.13)
		Resolved											
33	Laboration Double Laborate *(0)	Accepted	#0.000	CO 444	CO 400				CO 540	#0.00	CO 44	(0.00	60.50
33	Labs Third Party Losses *(3)	Adjustment	\$0.203	\$0.114	\$0.199				\$0.516	\$0.20	\$0.11	\$0.20	\$0.52
		Resolved Accepted											
36	AGCS Cumulative Rate Base *(4)	Adjustment	\$0.184	\$0.631	\$1.390	\$2.318	\$2.746	*(5)	\$2.746				
30	AGCG Cumulative Rate base (4)	Resolved	ψ0.104	ψ0.031	ψ1.330	Ψ2.510	Ψ2.740	(3)	ΨZ.740				
		Accepted											
36	AGCS Earnings - Expense *(7)	Adjustment	\$0.318	\$0.324	\$1.010	\$0.415	\$0.594	*(5)	\$2.661	\$3.20	\$4.20	\$9.90	\$17.30
	7.000 Lannings Expense (1)	Resolved	φοιστο	ψ0.0 <u>2</u> .	ψ1.010	ψοιτιο	ψο.σσ.	(0)	ψ2.001	ψ0.20	Ų 1.20	ψ0.00	ψσσ
		Accepted											
44	GTEITS Cost/Market Studies	Adjustment	(\$0.063)	\$0.338	\$0.052	(\$0.009)	\$0.667	\$0.190	\$1.175	\$0.00	\$0.30	\$0.01	\$0.31
									, ,				
50	GTEDC Earnings *(7)	Contested							\$0.000	\$20.50	\$6.20	\$35.60	\$62.30
		Resolved											
		No											
63	Remittance Processing	Adjustment							\$0.000		\$0.40	\$0.02	\$0.42

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			1996	1997	1998	1999	2000	2001	Cumulative	1996	1997	1998	Cumulative
		Resolved											
		No											
66	CATV Conduit Agreement	Adjustment							\$0.000	\$0.10	\$1.20		\$1.30
		Resolved											
		No											
69	Bill Distribution	Adjustment							\$0.000		\$0.10	\$0.05	\$0.15
		Resolved											
		No											
77	GTE Wireless - Service Agreement	Adjustment							\$0.000		\$0.10	\$0.10	\$0.20
		Resolved											
00	OTEL D. A. L. a. Calabara de Calabara	No							# 0.000	04.00	00.00		00.50
80	GTELD Advertising/Telemarketing	Adjustment							\$0.000	\$1.60	\$0.90		\$2.50
		Resolved											
85	20% G&A Overhead Rate	Accepted	CO 04.4	\$0.417	#0.000				CO CO	#0.000	#0.700	CO 744	¢4 500
85	20% G&A Overnead Rate	Adjustment Resolved	\$0.014	\$0.417	\$0.266				\$0.697	\$0.090	\$0.792	\$0.714	\$1.596
		No											
87	IPT rate	Adjustment	*(2)	*(2)	*(2)				\$0.000	*(2)	*(2)	*(2)	\$0.00
67	IF I Tale	Resolved	(2)	(2)	(2)				\$0.000	(2)	(2)	(2)	\$0.00
		Accepted											
89	10% Mark-up	Adjustment	\$0.004	\$0.104	\$0.093				\$0.201	\$0.007	\$0.208	\$0.186	\$0.401
Summary	Summary of Total (Increase) / Decrease to Expenses * (4), (6)			\$9.603	\$10.873	\$8.558	\$1.261	\$0.190	\$47.153	\$33.24	\$31.93	\$62.42	\$127.59
	(1), (2)											•	
Summary of	Cumulative (Increase) / Decrease to Rate E	Base * (4), (6)	\$0.184	\$0.631	\$1.390	\$2.318	\$2.746	*(5)	\$2.746				

Audit Report Sch.1-2 Totals Variance

\$35.90	\$31.80	\$62.40	\$130.10
\$2.66	(\$0.13)	(\$0.02)	\$2.51

Notes:

*(1) Does not reflect \$1.3 million as noted on Audit Report Sch. 10-8.

- * (2) IPT adjustments incorporated with 20% adjustments.
- *(3) Not explicitly identified in Audit Report Sch. 1-2.
- *(4) Rate Base adjustments are not included in Summary of Total Expenses.
- *(5) Verizon agrees to restate the annual earnings filings for 2001, 2002 and 2003, or until Verizon's percent ownership in AGCS drops below 5%.
- *(6) Verizon agrees to restate the annual earnings filings for 1996 2001 to reflect the accepted adjustments.
- *(7) Where adjustments are made, the parties agree to use 11.5% for 1996. The auditors revised the 1996 audit recommendation for AGCS from \$3.9 mil to \$3.2 mil.

The auditors revised the 1996 audit recommendation for GTEDC from \$22.7 mil to \$20.5 mil.

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